Cost of Doing Business ENTR 4-2

Be Your Own Boss

Imagine you operate a retail business selling disposable cell phones. First, decide on a selling price for the phones and prepare a list of the estimated fixed and variable expenses. Second, you want the business to increase its profit, so you try to come up with several ways to lower the variable and fixed expenses. Prepare 2 PowerPoint slides summarizing your ideas. Email the PowerPoint as an attachment.

Think Critically

1. How are expenses related to profits?

2. What is a fixed expense? Why don't fixed expenses change in response to sales?

3. What is a variable expense?

4. What is Cost of Goods Sold (COGS) and what does it include?

5. What is an economy of scale?

Think Critically

6. What is a unit of sale?

7. Explain why a unit of sale is not the same for every business.

8. How do you calculate the contribution margin?

9. What is a break-even point?

10. Describe a break-even analysis.

11. What are some actions an entrepreneur can take if his or her business is not selling enough to pay all its expenses?

12. How can break-even analysis be used when planning a business?

Problem Solving

1. You own AAA AudioVideo Repair. You make service calls to customers' homes to repair their audio/video equipment such as television sets and home theater systems. Your fixed costs are $10,000 a year and your variable costs for each service call are $20. If you charge $75 for each service call, how many service calls will you have to make in order to break even? Show your work!

2. The Fancy Feet Shoe Company provides you with the following data for its new line of shoes:

   Selling price: $25   Variable costs: $20   Total fixed costs: $33,600

   (per unit)   (per unit)

   (a) What is the gross profit per unit for the shoes? *(show your calculation)*

   (b) How many shoes does the company have to sell to cover all of its fixed costs? *(show your calculation)*